



*Affordable Care Act: Accuracy of Responses
to Exchange Requests for Income and Family
Size Verification Information and Maximum
Advance Premium Tax Credit Calculation*

July 3, 2014

Reference Number: 2014-43-044

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2 = Risk Circumvention of Agency Regulation or Statute

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HIGHLIGHTS

AFFORDABLE CARE ACT: ACCURACY OF RESPONSES TO EXCHANGE REQUESTS FOR INCOME AND FAMILY SIZE VERIFICATION INFORMATION AND MAXIMUM ADVANCE PREMIUM TAX CREDIT CALCULATION

Highlights

Final Report issued on July 3, 2014

Highlights of Reference Number: 2014-43-044 to the Internal Revenue Service Chief Technology Officer and the Director, Affordable Care Act Office.

IMPACT ON TAXPAYERS

Beginning January 1, 2014, most individuals must obtain health insurance that meets minimum requirements. The Health Insurance Exchanges (also referred to as Marketplaces), established by the U.S. Department of Health and Human Services and the States, are intended to provide a place for Americans to shop for health insurance in a competitive environment. Eligible individuals who purchase health insurance through an Exchange may qualify for and request a refundable tax credit, referred to as the Premium Tax Credit, to assist with paying their health insurance premium. The credit can be paid directly to an individual's health insurance provider as a partial payment for their monthly premiums (referred to as the Advance Premium Tax Credit or (APTC)).

WHY TIGTA DID THE AUDIT

This audit was initiated to ensure that the IRS is providing accurate information to the Exchanges to assist in determining an individual's eligibility to use the Exchange and receive the APTC. The overall objective of this review was to assess the accuracy of responses to Exchange requests for Income and Family Size Verification (IFSV) information for the purposes of determining insurance eligibility and the maximum APTC the individual could receive each month.

WHAT TIGTA FOUND

As of March 31, 2014, the IRS received more than 27 million IFSV information requests and more than 11 million APTC requests. Our review of the IRS's response to 101,018 IFSV requests received by the IRS between October 1 and October 4, 2013, showed that the IRS, based on the information furnished by the Exchange, provided accurate responses for 100,985 (99.97 percent) of the 101,018 requests.

However, TIGTA identified 33 requests for which the IRS incorrectly notified the Exchange that it could not provide tax information for individuals for whom the Exchange was requesting information because the IRS was unable to match the name on the application to IRS data records. These responses were incorrect because the individual's name used on the application was in fact available in IRS data records. This resulted from a computer programming error in which IRS data used to provide information in response to Exchange requests did not always contain the most recent name information shown on the individual's tax account.

In addition, TIGTA reviewed the IRS's response to 120,824 APTC requests received between October 1 and October 14, 2013. This review showed that the IRS, based on information furnished by the Exchange, accurately calculated the maximum monthly APTC for all 120,824 requests.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Technology Officer ensure that IRS data records used to provide responses to Exchange requests accurately reflect an individual's most recent name information contained in IRS tax data.

IRS management agreed with TIGTA's recommendation. The IRS has already implemented programming modifications so that name information fields are now consistent with the most recent name information shown on the individual's tax account.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 3, 2014

MEMORANDUM FOR CHIEF TECHNOLOGY OFFICER AND
DIRECTOR, AFFORDABLE CARE ACT OFFICE

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Affordable Care Act: Accuracy of Responses to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation (Audit # 201340335)

This report presents the results of our review to assess the accuracy of responses to Health Insurance Exchange requests for Income and Family Size Verification information for the purposes of determining insurance eligibility and the maximum Advance Premium Tax Credit the individual could receive each month. Our review was limited to verifying the accuracy of the IRS's calculations during the eligibility and enrollment process. This audit was conducted as part of our Affordable Care Act strategy and is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2014 Annual Audit Plan. This review addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).



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*Affordable Care Act: Accuracy of Responses to Exchange
Requests for Income and Family Size Verification Information
and Maximum Advance Premium Tax Credit Calculation*

Abbreviations

ACA	Affordable Care Act
AGI	Adjusted Gross Income
APTC	Advance Premium Tax Credit
CDR	Coverage Data Repository
FPL	Federal Poverty Level
IFSV	Income and Family Size Verification
IRS	Internal Revenue Service
PTC	Premium Tax Credit
SLCSP	Second Lowest Cost Silver Plan



Affordable Care Act: Accuracy of Responses to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation

Background

The Patient Protection and Affordable Care Act of 2010¹ and the Health Care and Education Reconciliation Act of 2010² (hereafter collectively referred to as the Affordable Care Act (ACA)) were both signed into law in March 2010. The ACA legislation seeks to provide more Americans with access to affordable health care by creating a new Health Insurance Exchange (hereafter referred to as the Exchange),³ enforcing patient/consumer protections, and providing Government subsidies for people who cannot afford insurance. The Exchange simplifies an applicant's search for health coverage by providing multiple options in one place and comparing plans based on price, benefits, quality, and other important features that help consumers make a choice.

The Affordable Care Act seeks to provide more Americans with access to affordable health care.

Beginning January 1, 2014, most individuals were required to obtain health insurance coverage that contained essential health benefits including emergency services, maternity and newborn care, and preventative and wellness services. The Exchanges, established by the U.S. Department of Health and Human Services and the various States, are intended to provide a place for Americans to shop for health insurance in a competitive environment. The Exchanges offer insurance plans by private companies, and individuals can access qualified health plan information online, via a call center, or in person. The qualified health insurance plans offered through the Exchanges cover the same core set of essential health benefits, and no plan can turn an applicant away or charge more because of a preexisting illness or medical condition.

To enroll in health insurance coverage offered through an Exchange, individuals must complete an application and meet certain eligibility requirements defined by the ACA. Individuals began using the Exchanges on October 1, 2013, to purchase health insurance for Calendar Year 2014. Figure 1 provides a list of the States that use the Federally Facilitated Exchange, the States that use a State Partnership Exchange,⁴ and the States (including the District of Columbia) that have developed their own Exchange as of May 14, 2014.

¹ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

² Pub. L. No. 111-152, 124 Stat. 1029. (See Affordable Care Act, *infra*).

³ Also commonly referred to as the Marketplace.

⁴ A State Partnership Exchange is a hybrid model in which the State makes key decisions and works with the Department of Health and Human Services to tailor the operation of the Federally Facilitated Exchange to meet the local needs and market conditions in their State.



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Figure 1: Type of Exchanges Used by the States⁵

Federally Facilitated Exchanges	State Partnership Exchanges	State-Based Exchanges
Alabama	Arkansas	California
Alaska	Delaware	Colorado
Arizona	Illinois	Connecticut
Florida	Iowa	District of Columbia
Georgia	Kansas	Hawaii
Indiana	Maine	Idaho
Louisiana	Michigan	Kentucky
Mississippi	Montana	Maryland
Missouri	Nebraska	Massachusetts
New Jersey	New Hampshire	Minnesota
North Carolina	Ohio	Nevada
North Dakota	South Dakota	New Mexico
Oklahoma	Virginia	New York
Pennsylvania	West Virginia	Oregon
South Carolina		Rhode Island
Tennessee		Vermont
Texas		Washington
Utah		
Wisconsin		
Wyoming		

Source: Centers for Medicare and Medicaid Services as of May 14, 2014.

Eligible individuals who purchase health insurance through an Exchange may qualify for and request a refundable tax credit,⁶ referred to as the Premium Tax Credit (PTC), to assist with paying their health insurance premium. Individuals may elect to have the PTC paid directly to their health insurance provider as partial payment for their monthly premiums (hereafter referred

⁵ According to the Centers for Medicare and Medicaid Services, no changes have been made in the individual states' participation as either a Federally Facilitated, State Partnership, or State-Based Exchange since October 18, 2013.

⁶ Any tax credit that is refundable can be used to reduce a taxpayer's tax liability to zero. Any excess of the credit beyond the tax liability can be refunded to the taxpayer.



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to as the Advance Premium Tax Credit (APTC)) or receive the PTC as a lump-sum credit on their annual Federal tax return at the end of each coverage year beginning with the filing of their Tax Year⁷ 2014 tax return. Because the PTC is a refundable credit, individuals who have little or no income tax liability can still benefit. Figure 2 lists the eligibility requirements individuals must meet to purchase insurance through an Exchange and to qualify for the PTC.

Figure 2: Eligibility Requirements to Purchase Insurance From an Exchange and to Qualify for the PTC

Exchange Eligibility Requirements	PTC Eligibility Requirements
<p>Individuals must:</p> <ul style="list-style-type: none"> • Live in the United States. • Be a U.S. citizen or national (or be lawfully present). • Not be currently incarcerated. 	<p>Individuals must:</p> <ul style="list-style-type: none"> • Buy health insurance through the Exchange. • Be ineligible for health coverage through an employer or government plan. • Be within certain income limits.⁸ • File a joint tax return, if married. • Not be claimed as a dependent by another person.

Source: IRS.gov and Healthcare.gov.

Starting in January 2015, individuals must include the amount of the APTC paid to an insurance provider on their behalf on their tax return and reconcile it to the allowable amount of the PTC.

The Exchange determines an applicant’s eligibility to obtain health insurance and monthly financial assistance to pay for the health insurance

Individuals applying for financial assistance for insurance obtained through an Exchange must provide information regarding their income and family status, *e.g.*, marital status and number of dependents. The Exchange then obtains information from other sources, including other Federal agencies, to verify the applicant’s information and determine eligibility to obtain coverage through the Exchange. The Exchange also uses the information obtained to predict what an individual’s income and family status will be in the year for which health coverage is being requested. During the Exchange enrollment and APTC eligibility process, the following Federal agencies perform verifications and provide information:

⁷ A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

⁸ For example, in Calendar Year 2013, income between 100 percent to 400 percent of the Federal Poverty Level equated to \$23,550 to \$94,200 for a family of four. More information on the Federal Poverty Level can be found at <https://www.healthcare.gov/glossary/federal-poverty-level-FPL/>.



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- The U.S. Social Security Administration verifies the applicant's Social Security Number, lawful presence in the United States, wage data, and prisoner status.
- The U.S. Department of Homeland Security verifies the applicant's legal immigration status.

The Internal Revenue Service (IRS) provides tax return information for applicants and their family members and computes the maximum APTC amount. For example, for those individuals applying for financial assistance for Calendar Year 2014, the Exchange uses Calendar Year 2012 tax information received from the IRS to predict an individual's Calendar Year 2014 income. The Exchange uses this predicted income and family status to determine if an individual is eligible to receive an APTC.

Income and Family Size Verification (IFSV) information

The Exchanges submit requests to the IRS using the Department of Health and Human Services Data Hub⁹ to obtain the applicant's IFSV information. The IFSV information consists of income, family size, and other identifying information for the individuals included on the application. As of March 31, 2014, the IRS had received more than 27 million IFSV information requests. The Exchange provides the IRS with the Social Security Number, full name, and relationship to the tax filer for all individuals on the application. Using the information furnished by the Exchange, the IRS provides the following information back to the Exchange via the Hub:

- Adjusted Gross Income (AGI). The AGI is gross income minus adjustments to income that was reported on the tax return that the IRS used to obtain the IFSV information.
- Applicable Response Codes. If the IRS is unable to provide income and/or family size information for the applicant or a member of the applicant's family, the IRS provides the Exchange with a code describing why the information was not provided. Examples of issues that would prevent the IRS from being able to provide the requested information include the IRS having no tax return information for an individual, the IRS having indications of identity theft on the individual's tax account, or the spouse on the application not matching the spouse on the tax return.
- Applicant's Social Security Number and Spouse's Social Security Number (if applicable). The applicant's Social Security Number is the one reported on the tax return. When there is a spouse on the application, the spouse's Social Security Number is also included with the information provided to the Exchange.

⁹ The Hub provides a single point where the Exchanges may access data from different sources, primarily Federal agencies. The Hub does not store data; rather, it acts as a conduit for the Exchanges to access the data from where they are originally stored.



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- ***Family Size.*** Family size is defined as the number of exemptions reported on the tax return that the IRS used to obtain the IFSV information.
- ***Filing Status.*** The filing status is what was reported on the tax return that the IRS used to obtain the IFSV information.
- ***Household Income.*** Household income includes the applicant’s income and the total income of the other individuals in the house that are included in the family size and are required to file a tax return. The IRS will provide the Exchange with the total of the AGI, nontaxable interest, and foreign income exclusion. When present, it will also provide the amount of taxable Social Security benefits. The Exchange will obtain the amount of total Social Security benefits from the Social Security Administration to determine the amount of nontaxable Social Security benefits to be included in modified AGI. The modified AGI is defined in the ACA as AGI plus nontaxable interest, nontaxable Social Security benefits, and the amount of foreign income exclusion.
- ***Tax Year of the Tax Information Being Provided.*** For requests received during the current enrollment season,¹⁰ the IRS returned Tax Year 2012 or Tax Year 2011 tax information. The IRS would only provide Tax Year 2011 information if a tax return had not been filed for Tax Year 2012.

The IRS developed five external response codes to respond to Exchange requests. External response codes provide a generic description as to why the IRS is not returning tax information for the applicant. The IRS can return multiple external response codes in response to an IFSV information request. Figure 3 lists the external IFSV information response codes.

Figure 3: External IFSV Information Response Codes

External Response Code	Description
001	Systemic error.
002	Unable to provide data due to authentication issue.
003	Unable to provide income due to spouse mismatch.
004	Return information is unavailable.
008	No dependent filing requirement.

Source: The IRS’s IFSV Internal and External Response Code document.

The IRS sends its response to the IFSV information request to the Exchange via the Data Hub. The Exchange uses the information provided to assist in predicting an applicant’s income and family size for the requested health coverage period for which insurance is being obtained. It

¹⁰ The current enrollment season to apply for insurance through an Exchange ran October 1, 2013, through March 31, 2014.



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should be noted that the Exchange is not required to use the information the IRS provides as the Exchange has the sole discretion in this process.

The IRS also developed 19 internal response codes which contain more specific information regarding the reason information is not being returned to the Exchanges. Internal response codes are for IRS use only and are not provided to the Exchanges. Figure 4 lists the internal IFSV information response codes.

Figure 4: Internal IFSV Information Response Codes

Internal Response Code	Description
001	*****2***** ¹¹ *****
004	*****2*****
005	*****2*****
006	*****2*****
007	*****2*****
008	*****2*****
009	*****2*****
012	*****2*****
013	*****2*****
014	*****2*****
015	*****2*****
017	*****2*****
018	*****2*****
020	*****2*****
021	*****2*****
022	*****2*****
023	*****2*****
024	*****2*****
025	*****2*****

Source: The IRS's IFSV Internal and External Response Code document.

¹¹*****2*****



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APTC Calculation

Once the Exchange has determined that an individual's predicted income and family size makes them eligible to receive the APTC, the Exchange will send a request to the IRS to compute the maximum amount of the APTC the individual could receive each month. The IRS has developed a "PTC Calculator" to respond to these requests. As of March 31, 2014, the IRS had received more than 11 million APTC requests.¹² The Exchange provides the IRS the following information for use in computing the maximum monthly APTC:

- Coverage Year. The year the health insurance will cover the applicant.
- Household Income. Household income is determined by the Exchange based on the individual's projected income for the year for which health insurance coverage will be obtained.
- Income As a Percentage of the Federal Poverty Level (FPL). The FPL is a measure of income level issued annually by the Department of Health and Human Services. The FPL is used to determine eligibility for certain programs and benefits. Individuals' income must be between at least 100 percent but not more than 400 percent of the FPL to be eligible for the PTC.
- The Adjusted Premium of the Applicable Second Lowest Cost Silver Plan (SLCSP). The SLCSP refers to the level of coverage provided by the health plan. Health plans offered by the Exchange will be categorized as Platinum, Gold, Silver, Bronze, or Catastrophic, depending on the share of costs covered. For example, a Bronze plan will have a higher deductible than a Silver plan, and the Platinum plan will have a lower deductible than the Silver plan. A Silver plan will provide benefits that are actuarially equivalent to 70 percent of the full actuarial value of the benefits provided under the plan. This means the plan will cover about 70 percent of the costs for covered medical services.

The IRS uses the information provided by the Exchange to estimate how much the applicant can afford to pay for health insurance (referred to as Household Contribution) each month. The IRS then compares the applicant's estimated monthly Household Contribution to the monthly premium for the SLCSP.¹³ If the monthly SLCSP premium is greater than the estimated monthly Household Contribution, the applicant is eligible for the APTC. The maximum amount of the monthly APTC is the difference between the monthly Household Contribution and the monthly

¹² The total number of APTC requests is lower than the number of IFSV information requests because an APTC request will not be made when the IFSV information shows the income is too high to qualify for the APTC.

¹³ The IRS uses the premium associated with the SLCSP because the ACA requires the use of this amount. For example, there could be more than one plan in the Silver category and, as required, the IRS is using the premium of the Silver Plan that has the second lowest cost associated with it.



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SLCSP premium. If the monthly SLCSP premium is less than the monthly Household Contribution, the applicant is not eligible for the APTC.¹⁴ For example (hypothetical example):

Individual A has household income of \$50,000, which is 325 percent of the FPL. The SLCSP cost is \$375 per month. The IRS calculates Individual A's monthly Household Contribution as being \$396. Because individual A's Household Contribution is greater than the cost of the SLCSP, Individual A is not entitled to receive any APTC.

Individual B has household income of \$30,000, which is 162 percent of the FPL. The SLCSP cost is \$1,000 per month. The IRS calculates Individual B's monthly Household Contribution as being \$114. Because Individual B's Household Contribution is less than the cost of the SLCSP, Individual B is entitled to receive a monthly APTC in the amount of \$886 (\$1,000 – \$114).

An individual can elect to receive the maximum monthly APTC, a portion of the maximum monthly APTC, or no APTC. Once an individual selects his or her insurance coverage and how he or she would like to receive the monthly APTC, the Exchange sends a request to the U.S. Department of the Treasury's Bureau of the Fiscal Service to issue monthly APTC payments to the individual's insurance provider. As of March 31, 2014, the Department of Health and Human Services reported that more than \$1.45 billion in APTCs has been paid to insurers.

Reconciliation of APTC amounts received

During the 2015 Filing Season¹⁵ (filing of Tax Year 2014 tax returns), individuals will reconcile the APTC on their Tax Year 2014 return. The individual will complete a Form 8962, *Premium Tax Credit Schedule*, to reconcile the amounts of the APTC paid to an individual's insurance provider and the amount of the PTC allowed based on actual income reported. If the amount of the APTC received during the tax year exceeds the actual PTC allowed, the amount paid in excess will be additional tax due on the tax return. This can occur if the individual's income reported on his or her Tax Year 2014 tax return is higher than what was estimated by the Exchange when determining the amount of the monthly APTC. The amount of additional tax an individual will have to repay is capped if the individual's income remains within 100 percent to 400 percent of the FPL. However, if the individual's income is more than 400 percent of the FPL, the individual will have to pay back the entire amount of the APTC received.

¹⁴ In this instance, the IRS would return a figure for the Remainder Benchmark Household Contribution to the Exchange. The Remainder Benchmark Household Contribution is used by the Exchange to determine the remaining amount a family can be expected to contribute toward a second or subsequent policy.

¹⁵ The period from January through mid-April when most individual income tax returns are filed.



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CDR

The CDR is the IRS's main data repository for ACA initiatives. The CDR houses taxpayer data from the Individual Master File,¹⁶ the Individual Return Transaction File,¹⁷ and the Data Master One¹⁸ file. The CDR will store a maximum of two years of a taxpayer's data at any time. The CDR will contain current year and previous tax year information for all taxpayers. For example, for the 2014 enrollment period,¹⁹ the CDR contains tax information for Tax Years 2011 and 2012 for all taxpayers. The IRS loaded the first extracts of taxpayer data obtained from the source databases into the CDR on September 7, 2013. The IRS updated the CDR information on November 2, 2013; November 29, 2013; and January 26, 2014, and plans to execute subsequent monthly updates.

The IRS uses the data contained in the CDR to respond to IFSV information requests from the Exchanges. The IRS relies on the most recent tax return information maintained in the CDR for the applicant and the applicant's listed family members to respond to the Exchange requests. In the future, the CDR will also house information received from the Exchange related to who obtained insurance coverage, the period for which they had coverage, and the amount of any APTC received.

This review was performed at the New Carrollton Federal Building in New Carrollton, Maryland, and was performed with information obtained from the Affordable Care Act Office Filing and Premium Tax Credit Strategy function and the Affordable Care Act Program Management Office in Washington, D.C., including the Income Verification and Information Services function in Farmers Branch, Texas, during the period of July 2013 through April 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹⁶ The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

¹⁷ The Individual Return Transaction File contains data transcribed from initial input of the original individual tax returns during return processing.

¹⁸ The Data Master One is a database of name controls and Taxpayer Identification Numbers received from four sources: the Social Security Administration, IRS valid processing, the Individual Taxpayer Identification Number file, and the Adoptive Taxpayer Identification Number file.

¹⁹ The 2014 Exchange enrollment period was from October 1, 2013, through March 31, 2014.



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Results of Review

Responses to Exchange Requests for Income and Family Size Verification Information Are Mostly Accurate

Our review of the IRS's response to 101,018 IFSV information requests received by the IRS between October 1, 2013, and October 4, 2013, showed that the IRS provided accurate responses for 100,985 (99.97 percent) of the 101,018 requests based on the information furnished by the Exchange. We identified 33 requests for which the information contained in the CDR did not reflect the most current name control for an individual for whom the Exchange was requesting information from the IRS. A name control is the first four letters in an individual's last name, *e.g.*, the name control for Smith would be SMIT. As a result, the IRS incorrectly notified the Exchange that it could not provide tax information for these individuals because the IRS was unable to match the name on the application to name control information maintained in the CDR. Our analysis of taxpayer account information for the individuals in these 33 requests showed that there was not a mismatch between the name provided by the Exchange and the name information contained in the individual's tax account.

We raised this concern to the IRS on March 26, 2014. The IRS stated that it had recently identified an error with the computer programming used to capture the name control field from the Data Master One file.²⁰ This error occurred for individuals with more than five name controls associated with their tax account on the Data Master One file. The programming to capture the individual's current and past name controls from the Data Master One file pulled the individual's first five name controls from the file rather than the most recent five name controls. The IRS estimates that the name control information for approximately 2.8 million taxpayers (1 percent) of the more than 283 million taxpayers could be incorrect in the CDR.

While the IRS estimates this error affects approximately 2.8 million taxpayers for which information is contained in the CDR, the number of IFSV information requests received by the IRS that are affected by the inaccurate CDR information is likely significantly less. Not all individuals with tax information in the CDR are eligible to use the Exchange, and not all individuals who are eligible will use the Exchange to purchase insurance. The IRS indicated it has requested changes be made to the computer programming to correct the name control error for the next Exchange enrollment period in November 2014.

²⁰ The data from the Data Master One file is loaded onto the Integrated Production Module. The Integrated Production Module provides the business operating divisions access to current and historical taxpayer data via one central data source to eliminate the need for multiple, often redundant, data sources. The data from the Integrated Production Module are loaded into the CDR.



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External and internal IFSV information response codes accurately reflect information in the CDR

Our review verified that all five of the external response codes and 16 of the 19 internal response codes the IRS uses to respond to IFSV information requests accurately reflect information contained in the CDR. We were unable to verify the accuracy of three (codes 007, 013, and 015) of the 19 internal response codes because these codes were not applicable to the 101,018 IFSV information requests we reviewed.

Although the computer programming used to generate the internal and external response codes is accurate, we determined that inaccurate information in the CDR resulted in an incorrect response to 33 of the 2,613 IFSV information requests we reviewed for which the IRS generated an internal response code 018. Internal response code 018 indicates the *****2*****
*****2*****
*****2*****

Most Data received from the CDR matched data contained in source files

Our assessment of the tax account information contained in the CDR between October 1 and October 4, 2013, showed that most of the information from the CDR agreed with the information contained in source files including the Individual Return Transaction File, the Individual Master File, and the Data Master One file. As previously discussed, the CDR does not accurately reflect the prior names used by an individual when an individual has more than five prior names shown in the Data Master One file. The IRS is taking steps to correct the name information for these individuals for the next Exchange enrollment period beginning November 2014.

Recommendation

Recommendation 1: The Chief Technology Officer should ensure that the CDR accurately reflects an individual's most recent name controls contained in the Data Master One file.

Management's Response: IRS management agreed with our recommendation. The IRS has already implemented programming modifications so that name control fields are now consistent with the Individual Master File.

Responses to Exchange Requests for Maximum Monthly Advance Premium Tax Credit Calculations Are Accurate

Our review of the IRS's response to 120,824 APTC requests received between October 1 and October 14, 2013, found that the IRS's calculation of the maximum monthly APTC using the information provided by the Exchanges was accurate for all 120,824 requests. As part of our analysis of the accuracy of the IRS's computation of the maximum monthly APTC, we reviewed the ACA and Treasury regulations in place at the time of our review. Treasury regulations



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provide the official interpretation of the Internal Revenue Code by the Department of the Treasury.

Our review identified four responses with a discrepancy between the IRS's calculation of the maximum monthly APTC and the Treasury regulations in place at the time of our review. Specifically, the tables provided in the regulations indicate that the PTC, and as such the APTC, should be calculated for those applicants with incomes "less than 400%" of the FPL. For these four IRS responses, the applicant's income was exactly 400 percent of the FPL. We requested information regarding the legal guidance received by the IRS related to providing APTC calculations for applicants with income at 400 percent of the FPL on January 23, 2014. The IRS provided documentation that shows proposed changes to the Treasury regulations will clarify that the PTC as well as the APTC is available to individuals whose income is exactly 400 percent of the FPL.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the accuracy of responses to Exchange requests for Income and Family Size Verification information for the purposes of determining insurance eligibility and the maximum Advance Premium Tax Credit the individual could receive each month. Our review was limited to verifying the accuracy of the IRS's calculations during the eligibility and enrollment process. To accomplish our objective, we:

- I. Determined if the IRS was accurately calculating the IFSV information during the eligibility and enrollment process.
 - A. Obtained and reviewed the IFSV Project documentation and business requirements and reviewed the ACA legislation.
 - B. Determined whether the IRS was accurately calculating the household income and family size information it provided to the Exchanges.
 1. Obtained an extract of 101,018 IFSV information requests received by the IRS between October 1 and October 4, 2013, and the IRS's response to the 101,018 requests. Beginning on October 1, 2013, the IRS captured IFSV information request and response data received during an off-peak window, *e.g.*, 2:00 a.m. to 4:00 a.m., until it had selected at least 100,000 IFSV information requests.¹ We validated the reliability of the data extracts by ensuring that the tax return data fields were supported by data contained in the IRS's Integrated Data Retrieval System² and by comparing information in the tables created by our Strategic Data Services to the source data provided by the IRS.³
 2. Using information contained in the IRS Individual Return Transaction File, the Individual Master File, and the Data Master One file, independently calculated the applicant's household income and family size for each request. We then compared our calculation to the IFSV information contained in the IRS's response.

¹ The IRS opted to pull our requested data during the off-peak window rather than capturing the first 100,000 requests received because we asked that our request be performed in a way that would prevent negative effects to system performance.

² IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

³ The IRS provided text files in Extensible Markup Language for the IFSV information and PTC transactions.



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3. Using information contained in the IRS Individual Master File, the Individual Return Transaction File, and the Data Master One file, verified the accuracy of information contained in the CDR. We verified the accuracy of the information reflected in the internal CDR transactions associated with the 101,018 IFSV information requests we reviewed.
- II. Determined if the IRS accurately calculated the APTC during the eligibility and enrollment process.⁴
- A. Obtained and reviewed the IRS project documentation and business requirements relevant to the APTC and determined how the IRS calculates the APTC.
 - B. Reviewed the ACA legislation, the Internal Revenue Code, and Treasury regulations to determine how the APTC is to be computed.
 - C. Determined if the IRS accurately calculated the APTC in response to requests from the Exchanges.
 1. Obtained an extract of 120,824 requests for an APTC calculation received by the IRS between October 1 and October 14, 2013, along with the IRS's response to each request. Beginning on October 1, 2013, the IRS captured APTC request data received during an off-peak window, e.g., 2:00 a.m. to 4:00 a.m., until it had selected at least 100,000 APTC requests.⁵ We validated the reliability of the data extracts by comparing information in the tables created by the Treasury Inspector General for Tax Administration's Strategic Data Services to the source data files provided by the IRS.
 2. Using the information contained in the APTC request, independently computed the APTC for each request. We then compared our computation of the APTC to the APTC contained in IRS's response to the Exchange request.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies and

⁴ If the amount the taxpayer could contribute was more than the cost of his or her insurance, the IRS will return a figure for the Remainder Benchmark Household Contribution to the Exchange. The Remainder Benchmark Household Contribution is used by the Exchange to determine the remaining amount a family can be expected to contribute toward a second or subsequent policy.

⁵ The IRS opted to pull our requested data during the off-peak window rather than capturing the first 100,000 requests received because we asked that our request be performed in a way that would prevent negative effects to system performance.



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procedures to document the programming of the IFSV information and PTC calculations and the processes the IRS developed to monitor the performance of the IFSV information and PTC processes. We evaluated these controls by interviewing management, obtaining data extracts of the IFSV information and APTC responses, and reviewing the related IFSV information and APTC calculations obtained in the responses.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Audit Liaison: Director, Affordable Care Act Office SE:ACA:ONE



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Appendix IV

Management's Response to the Draft Report



CHIEF TECHNOLOGY OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 18 2014

MEMORANDUM FOR MICHAEL E. McKENNEY
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Terence V. Milholland
Chief Technology Officer

SUBJECT:

Affordable Care Act: Review of the Accuracy of Responses to Marketplace Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit – Audit# 201340335 (e-trak #2014-55423)

Thank you for the opportunity to review your draft audit report and to discuss earlier draft report observations with the audit team. We take our responsibility to provide accurate Advance Premium Tax Credit (APTC) and Income and Family Size Verification (IFSV) responses to the marketplaces very seriously. I was pleased your report substantiated our efforts by showing 100 percent accuracy rate for our calculation of the monthly maximum APTC and an over 99 percent accuracy rate of IFSV responses to the marketplaces.

The Affordable Care Act (ACA) Program Management Office has put in place sound management practices that have been recognized by the Treasury Inspector General for Tax Administration (TIGTA) in earlier reviews. I am committed to continuously improving IRS information technology systems and processes, and the ACA IT Program Management Office has already taken steps to correct the few discrepancies identified in your report. I am also pleased to say that with the perseverance and commitment of our team, the corrective action specified within this audit has been corrected and completed.

We value your continued support and the assistance and guidance your team provides. Our corrective action plan for the recommendation is attached. If you have any questions, please contact me at (240) 613-9373, or a member of your staff may contact Lisa Starr, Program Oversight Coordination Manager, at (240) 613-4219.

Attachment



Affordable Care Act: Accuracy of Responses to Exchange Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit Calculation

Attachment

Draft Audit Report - Affordable Care Act: Review of the Accuracy of Responses to Marketplace Requests for Income and Family Size Verification Information and Maximum Advance Premium Tax Credit (Audit # 201340335) (e-trak# **2014-55423**)

RECOMMENDATION #1: The Chief Technology Officer should ensure the CDR accurately reflects an individual's most recent name controls contained in the Data Master One file.

CORRECTIVE ACTION #1: The IRS agrees and has already implemented programming modifications so that name controls fields changes are now consistent with the Individual Master File (IMF).

IMPLEMENTATION DATE: Completed (June 1, 2014)

RESPONSIBLE OFFICIAL: The Associate Chief Information Officer, Affordable Care Act PMO

CORRECTIVE ACTION MONITORING PLAN: Not Applicable